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Mr. Jay Panzica
Chief Financial Officer
City of San Buenaventura
501 Poli St.
Ventura, CA 93002

Dear Mr. Panzica:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Buenaventura, California as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 13, 2009. In planning and performing our audit, we considered the City of San Buenaventura's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. We noted certain matters involving the internal control over financial reporting and its operation that we considered to be significant deficiencies under auditing standards generally accepted in the United States of America. Those significant deficiencies were reported to the City Council in a separate letter dated February 13, 2009. We also noted other items which are discussed below.

RISK ASSESSMENT AND MONITORING OVER FINANCIAL REPORTING

Comment/Recommendation:

The City has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the City has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations.

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its *Internal Control – Integrated Framework* and its related *Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting*. The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment and Monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the City. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

Mgt. Ltr.
3/27/09

The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountant's (AICPA) recently adopted a set of eight Statements of Auditing Standards (SAS No. 104 through 111), which, among other things, require auditors to assess an organization's design of controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls do not exist, are poorly designed or not operating effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weaknesses.

In conjunction with the implementation of its new financial information system City management should assure the documentation of internal controls over significant accounting areas (e.g cash receipts, cash disbursements) has been updated. In addition, management should review and expand its existing internal control assessment process and formalize a comprehensive risk assessment plan, which would include monitoring the adequacy and effectiveness of internal control procedures. This risk should be evaluated at least annually to consider any changes to the City's operating environments. The City should also develop a written contingency plan relating to the City's Information Technologies processes. In the event of loss of City staff or ability to process IT normally, the City should have a written plan to ensure that IT functions are not interrupted.

Management Response:

The Finance and Technology Department will continue to focus on the documentation and refinement of its internal controls as we progress through the implementation of the new financial system. We currently have strong segregation of duties in order to provide oversight between the Treasury cash receipting and Accounting's payable function. As with any new implementation, we are currently focused on the integrity of the data, the processes, and the reporting. Internal controls that exhibit weakness, or that may be poorly designed, or do not work effectively are being evaluated and corrected during the implementation.

The current IT Contingency Plan is based upon redundant technology; having a backup server at the Public Safety Center accessed by a redundant network from City Hall, which houses the operational server. Copies of the systems and data are made daily to tapes, which are collected and stored at the Iron Mountain facilities. We also have an agreement with the City of Santa Barbara, which is one of the remaining other two sites in California of the proprietary server (HP Alpha/Admins). Most staff functions are redundant, in that if any staff person is not available, other staff can do their work.

While this is a reasonable plan by 1980's standards, with E-Government systems a 24 hour x 7 day a week redundant IT infrastructure will be required. Much more needs to be done, but has been limited by the 25 year old technology currently in use for core IT systems. The City is in the process of converting off the old technology described above and on to web services based new technology. As these new systems become "live" over the next 2 years, the backup datacenter at the Public Safety Center will be built on as each new system is implemented. This backup datacenter will be a replica of the City Hall datacenter and data will be updated continually over the fiber network. A separate Internet link will be installed, so that if City Hall ceases to exist, staff will be able to access their systems from wherever they have access to the Internet. With this new technology, we will retrain staff and improve business processes to ensure full contingency can be delivered. A new contingency plan is being developed as we build out this new technology and it will be completed by the end of fiscal year 2009-2010.

Accounts Payable

Comment/Recommendation:

During our search for unrecorded liabilities, we noted that an invoice of \$196,780 applicable to FY 07/08 was not properly accrued. We understand that the department head did not submit the invoice to accounts payable in a timely manner, and the accounts payable review process did not detect this invoice as applicable to FY 07/08. We recommend that all the department heads submit invoices to accounts payable in a timely manner. We also recommend the City take more care in reviewing invoices processed after year-end for accrual.

Management Response:

We acknowledge that the 2007-08 invoices for the payment noted above did not occur until September 11, 2008. These invoices were not accrued on the City's books prior to closing; however, the invoices were accrued for the CAFR presentation. When fully implemented during the current fiscal year, our new AGRESSO Accounts Payable system, which is replacing our outdated and manual ADMINS system, will require all invoices to be accrued at the time of receipt, thus eliminating unrecorded accounts payable liabilities in the future.

Bank Reconciliations

Comment/Recommendation:

During our review of bank reconciliations, we noted that June 2008 bank reconciliation was not completed timely and had not been evidenced as reviewed by the Treasury Manager or Accounting Supervisor. We recommend that the City complete all bank reconciliations in a timely manner. We also recommend the timely review and approval by the Treasury Manager or Accounting Supervisor according to the City's bank reconciliation policy.

Management Response:

The Treasury Office always performs preliminary bank reconciliations for the year-end closing during the first two weeks of July. This reconciliation is reviewed by the Treasury Manager but not signed off by the Treasury Manager until the final closing of the books, which normally occurs during the latter part of August or early September. This past year the final closing of the books occurred during the week of September 11, 2008 when the Treasury Manager was on vacation, which delayed the sign off to September 22, 2008.

To address this audit concern, the Treasury Manager has changed the year-end preliminary bank reconciliation process to include a signature as part of the preliminary review and a final signature once the books are closed.

Mr. Jay Panzica
Chief Financial Officer
City of San Buenaventura
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We have reviewed the status of the recommendation contained in our letter to the City dated November 19, 2007, and found that our suggestion has been implemented.

This report is intended solely for the information and use of management of the City of San Buenaventura and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation for the courtesy and assistance extended to us during our audit by all of your staff.

We would be pleased to discuss with you at your convenience the matters contained in this letter or any other matters that you would like to discuss.

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

March 13, 2009